

CZECHOSLOVAKIA FALTERS: 1956-1963

826 I. Introduction

Czechoslovakia is no longer a model Satellite. Rates of industrial growth, formerly close to the highest among the world's developed countries, have fallen, and an increase of merely 1 percent in industrial production was planned for 1963. The rapid buildup of investment begun in 1956 has given way to a contraction. Plans for a further substantial expansion of Czechoslovakia's already large foreign aid program to countries of both the Bloc and the Free World are in jeopardy, and the government may even have asked for Soviet help. The population, which had seemed to accommodate itself increasingly to the system, has been expressing more openly its dissatisfaction with living conditions. And the Communist regime, which had given an appearance of unity, confidence, and unusual stability for a Satellite country, recently has shown signs of strain, indecision, and division.

In spite of the recent economic difficulties the Czechoslovak Communist regime remains firmly in power, and its economic policies and orientation have not basically changed. The difficulties, however, have made the regime much more cautious in its economic policies, weakened the position of President Antonin Novotny, impaired the image of Czechoslovakia as an industrialized nation achieving rapid economic progress under Communism, and weakened Czechoslovakia's stature in the Soviet Bloc in comparison with countries such as Poland and Hungary, which recently have been more successful in their economic policies.

The rate of industrial growth, which averaged 9 percent per year during 1956-60, declined to 6 percent in 1962, and an increase of only 1 percent in industrial production was planned for 1963. Capital investments expanded rapidly and steadily between 1955 and 1960, increased only 7 percent in 1961, fell by 5 percent in 1962, and were planned to decline again in 1963. Gross agricultural production, which had shown a slow upward trend since 1954, leveled off in 1961 and declined in 1962, reaching the lowest level in 3 years. On a net basis -- after deduction of the value of current inputs -- production in 1962 was estimated to be below any year since 1948-49.

The growing economic difficulties have been reflected in foreign trade. The Czechoslovak export surplus, which amounted to between \$100 million and \$200 million in 1961. The surplus with the West declined each year between 1956 and 1960, although Czechoslovakia was accumulating new credit commitments, and was replaced by a deficit in 1961. In 1962 a much larger surplus again was achieved, and the balance with the West was improved substantially 1) but at the expense of domestic investment and consumption.

But those statistics do not tell the whole story of the economic deterioration in Czechoslovakia. Although industrial production in 1961-62 was not too far behind the goal

set in the Third Five Year Plan (1961-65) -- an average annual growth of 9.3 percent 2)--the lags were large in branches (such as steel and heavy machine building) on which the regime counted most heavily for sustaining the rate of economic growth in the latter part of the Third Five Year Plan. These cumulating difficulties consequently led the regime to abandon the Third Five Year Plan in mid-1962 and to try to evolve a more successful economic policy.

Although investments had long been the principal basis for industrial expansion in Czechoslovakia, the use of reserves -- of labor, productive capacity, and organization of work -- also had played a role. By the late 1950's these reserves were nearing exhaustion, but their exhaustion was neither sudden nor entirely unexpected. For some years the regime had realized that new ways of increasing economic efficiency would have to be found if the rate of growth was not to decline eventually. For some years also the hopes of the regime for an acceleration of technological change and a marked improvement in the quality and assortment of production had been disappointed, but it had been possible to postpone the day of reckoning. By 1962, however, a further postponement was no longer possible.

The Third Five Year Plan, which was first drafted in 1958 and was in many respects a 7-year plan or perhaps even a 3-year plan, based economic growth mainly on a massive investment program, especially in basic industries, and on the introduction of new technology at an accelerated rate not only in new plants but also through the reconstruction of old plants. The industrial plan relied only to a small extent on increased employment, and only in the machine building industry was it expected to uncover substantial reserves of unused productive capacity. Special emphasis was given to steel and machine building because of the key importance of these industries in the Czechoslovak economy. (Czechoslovakia is one of the world's largest producers and consumers of steel on a per capita basis, and its machinery industry not only supports the bulk of domestic investments but also supplies 45 percent of exports.) A partial decentralization of economic management was undertaken during 1958-60 with a view to stimulating technological change and making production more responsive to demand.

In spite of a recognition by the Communist regime that new approaches to the economy were needed, however, the predominant policy was still to increase the volume of production as fast as possible by any means available. It was planned that past rates of growth in industrial production would be maintained approximately, and the economic system continued to be geared to achieving good quantitative, but not qualitative, results. Bonuses for managers and workers continued to be based mainly on fulfillment of the production plan, and relatively small weight was given to quality, assortment, and technology. Even more basically, no serious attack was made on a characteristic problem of all economies of the Soviet Bloc -- the lack of adequate criteria for making rational choices on the details on

economic activity. Novotny himself, when discussing economic problems at a mid-November 1961 meeting of his Party's Central Committee, admitted this basic weakness in the following words 3):

We do not yet know how to open the way to science and technology in our organizational and planning practice, how to support materially and morally enterprises and institutes that achieve real successes in the implementation of new technology and in scientific work, how to give more advantages to plants fighting for the new as compared with all those which hold fast to backward technology and technique. We have not yet been able to really guide the development of technology and decide on the direction of its development.

Czechoslovakia appeared to be a model Satellite during the late 1950's, as the rate of industrial growth remained high, the growth of investment accelerated, the foreign aid program expanded, and even personal consumption increased. Under the surface, however, economic problems were multiplying. The apparent successes were achieved through favorable weather for agriculture in 1960, by using up some of the few remaining "reserves," and by postponing expenditures wherever possible. Because of increasing demands for nonagricultural labor and the effects of collectivization, the flight of labor from agriculture increased considerably, averaging about 100,000 persons a year during 1957-61.

The postponement of investment expenditures in transportation further increased the strain on existing facilities. The rate of retirement of fixed assets was not increased as planned but actually declined in 1959-60 because of growing pressure on productive capacity. By these means the regime was able to cover up the failure of its program to accelerate technological change. Investments were not completed on schedule, and growing amounts of resources consequently were tied up in unfinished projects. Many new plants were put into operation during this period or soon afterwards -- for example, rolling mills with a capacity of 3.4 million metric tons of steel were installed in the late 1950's 4)--but the new facilities often had serious technical weaknesses that could not be remedied quickly. In many instances, plans for obtaining or applying sophisticated technology were not met. And the quality of products continued to be poor and their assortment ill-suited to the requirements of domestic and foreign users.

By the end of 1960 it should have been clear to the regime that the rate of economic growth had to decline. The introduction of new technology was far behind schedule. Moreover, the continued postponement of retirements and the continued large-scale transfers of labor from agriculture were bound before long to have a negative impact on the economy. Instead of recognizing this fact, the regime actually raised the original goals for production and investments for 1965. The planned rate of industrial growth of 2.2 percent per year for 1961-65 was the same

as that achieved in the previous 5 years.\* By pursuing an unrealistic plan for nearly 2 years, by trying to get by with expedient solutions to developing problems, and by allowing ideology to dominate agricultural policy, the regime made the country's economic difficulties worse than they might have otherwise.

### III. Economic Policies and Developments in 1961-62

The regime contributed to Czechoslovakia's economic difficulties mainly by overestimating the country's economic capabilities. Too much was expected of economic reforms carried out in 1958-60\*\* as well as of various forms of exhortation and persuasion, and it was assumed too readily that the performance of agriculture would improve. No provision was made for contingencies. Another mistake was to make economic plans reflect the expected gains in efficiency; the new sources of efficiency that were sought could not be developed by putting strong pressure on the producer to raise the volume of current output. Indeed, such pressure was almost bound to impede progress in technology, quality, and assortment, just as it had in the past. By pursuing unrealistic plans the regime probably took away any chance that the decentralization of 1958-60 would stimulate economic efficiency. Indeed, under conditions of high pressure to increase output, the decentralization led mainly to a weakening of economic priorities and a consequent misallocation of resources.

From the beginning of the Third Five Year Plan, Czechoslovakia had difficulty in meeting output goals. The plan for total industrial production was nearly fulfilled in 1961, but there were large lags in production of steel and heavy machinery and some lag also in investments, as is shown in the Table. These lags were especially serious because the phasing of the Third Five Year Plan required a faster buildup of investments in the first part than in the latter part of the plan period. The immediate cause of the lags in production of steel (a growth of 14 percent was planned for rolled steel in 1961, but only 4 percent was achieved) was that planned improvements in technology, especially the use of oxygen in existing plants, were not made. In turn, the shortfalls in steel affected machine building, where technological development also was lagging. Severe strain also was manifested in transportation during 1961, when the railroads found that they could no longer satisfy the increasing demands placed on them. Early in 1961, rail transport became an economic bottleneck in Czechoslovakia for the first time since the Communist takeover and was itself disrupted further as a result of the very uneven fulfillment of the industrial production plan. The lack of reserves in transportation

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\* The regime claims that output increased by 10.7 percent per year in 1958-60, but this claim is believed to be inflated

\*\* See VII, p. 24, below.

Table

Czechoslovakia: Annual Percentage Increases  
in Plans and Plan Fulfillment  
1961-62

	Percent			
	1961 (5)		1962 (6)	
	Plan	Actual	Plan	Actual
Total industry (gross)	9.3	8.9	9.3	6.2
Electric power	11	10.3	10	6.6
Hard coal	-1	0.1	4	3.6
Brown coal	8	12	6	6.2
Steel	10.2	4.1	14	8.5
Rolled steel	14.2	4.3	15	8.4
Cement	10	5.3	22	6.9
Heavy machine building	14.1	11.5	15	3.1
General machine building	11.0	12.2	N.A.	9.4
Chemical industry	11.4	12.9	11.6	10.4
Consumer goods	7.2	7.7	6.3	5.5
Foods	5.5	6.9	6.1	2
Retail trade	4.2	3.8	5.6	3.5
Agriculture (gross production)	7.1	0	5	-6
Personal consumption	N.A.	3+	6.2	2.5
Fixed investments	8	7	N.A.	-4.8

was revealed most clearly during the military mobilization measures of the fall of 1961 and again during the unusually severe winter of 1962-62. Another source of concern was the growing number of uncompleted investment projects, reflecting the inability of the construction industry to handle the growing volume of investments efficiently and the inadequate control exercised over new starts.

Gross agricultural production did not change in 1961, and net production declined. Consequently, consumption of food stagnated while, for the first time in several years, there was only a very small increase in consumption of industrial goods. The economic strain was reflected in foreign trade as imports of machinery and industrial materials exceeded plan, and there was a large shortfall in exports of machinery and equipment. Imports from the West rose rapidly, partly because of a very large increase in imports of steel, coal, and wheat to compensate for part of the shortfall in domestic output. Exports of machinery were held down by the lag in output of heavy machine building, by the inadequate assortment of products, and by the sharp decline of trade with Communist China. These unfavorable trends caused a large decline in the export surplus with the Soviet Bloc and a shift from an export surplus to an import surplus with the West -- a situation that could not last, because of Czechoslovakia's large and growing foreign aid commitments and deficit on service transactions.

The regime persisted in regarding economic problems that were developing in 1961 as temporary and hoped to be able to pursue the Third Five Year Plan. An increase of 14 percent in production of steel was planned for 1962 (compared with an average annual growth of about 9 percent for 1961-65) --- enough to make up for the shortfall of 1961. A similarly high plan was established for heavy machine building. Some of the original goals for investments in 1962 had to be lowered, notably in the chemical and metallurgical industries, and the completion of some facilities expected to be in operation in that year was postponed.<sup>7)</sup> Simultaneously the foreign trade balance, especially with the West, was to be greatly improved, and machinery exports were to be increased by 27 percent.<sup>8)</sup>

The economic situation grew steadily worse during 1962. Production of steel increased faster than in 1961, but, once again, much more slowly than planned, for essentially the same reasons as in the previous year. Output of heavy machine building increased at about half the planned rate, partly because of the lag in output of steel. Lags in the installation and inefficient operation of new power-generating capacity and a drought that cut the capacity of hydroelectric power-plants caused production of electric power to fall far short of plan and led to a serious shortage of power. Continued shortages of freight cars, as well as uneven fulfillment of production plans, caused disruption in the distribution of industrial materials, as reflected in production stoppages for lack of materials in some places and



unnecessarily large inventories in other places. Total industrial production rose only 6.2 percent compared with a planned 9.3 percent, as the growth of both employment and labor productivity declined. The construction industry also was unable to fulfill its tasks.

Agricultural production declined sharply to the lowest level in 7 years, partly because of unfavorable weather but partly also because of the ill effects of collectivization and subsequent policies of the regime on farmers' incentives. Instead of trying to stimulate interest in raising production and improving techniques, the regime in 1961-62 concentrated on gaining control over an increasing share of output by reducing payments in kind to collective farmers and placing further restrictions on the remnants of the farm market.

The foreign trade balance improved substantially as a result of an increase of 7.2 percent in exports compared with only 2.3 percent in imports,<sup>9)</sup> and the shortage of hard currency was eased. The sharp increase in the export surplus, however, cut into domestic investment and consumption and also may have been partly responsible for the tight supply of industrial materials. Capital investment fell 5 percent below the level of 1961, not only because output of machinery and construction lagged but also because equipment originally designed for domestic use was exported.<sup>10)</sup> Similarly the stagnation of personal consumption in 1962 was due both to the decline in food production and to restrictions on imports of foods and increased exports of manufactured consumer goods.

The dissatisfaction of the population grew considerably in 1962, not only because of the stagnation in consumption but also because of a severe imbalance on the consumer market.<sup>11)</sup> The imbalance took mainly the form of a shortage of meat and other quality foods, which resulted in extended queuing before food stores. Having become accustomed to a steady, if slow, increase in consumption and to a reasonably smooth distribution of goods, the population grew increasingly resentful of the shortages, and there were even some riots in the first half of 1962.

#### IV. Policies and Plans for 1963-70

By mid-1962 the cumulative deterioration of the economy had convinced the regime that the Third Five Year Plan could not be fulfilled. Accordingly the plan was abandoned, and the Czechoslovak regime had to find a new approach to economic policy. The new approach was evolved during the second half of 1962, with criticism, apparent indecision, and some disagreement within the Party, and was incorporated into an interim plan for 1963 and a Seven Year Plan for 1964-70.

##### 1. Publication of the "Perspectives"

The first official disclosure that the regime was preparing to abandon the Third Five Year Plan and the first intimations

of a change in aims and methods were contained in a lengthy document of the Central Committee of the Communist Party published in mid-August 1962. 12) This document, entitled "Perspectives for the Future Development of Our Socialist Society" (hereafter referred to as the "Perspectives") was prepared for nationwide discussion in preparation for the Twelfth Party Congress, which eventually was held in December 1962.

The "Perspectives" set forth the new approach in the following statement: "The Central Committee has ... come to the conclusion that it will be desirable in the next few years to distribute our forces and means better, and to set targets so as to secure the proportionate development of the economy, and to create necessary reserves by exceeding these targets. In this way it will be possible to reduce the excessive strain in fulfilling the plan, to avoid defects in the supply of materials, and to insure smooth running of the economy and normal, even work in enterprises." Clearly the "high-pressure" planning of the past was to be avoided because of the disruption and imbalances to which it had led. Economic plans would be more realistic and less influenced by political pressure and also would allow for contingencies. However, the extent of the necessary retrenchment was not indicated, and the "Perspectives" at the same time strongly reemphasized the basic priorities of the Third Five Year Plan -- the rapid development of steel and heavy machine building -- priorities that had not been observed during 1961-62. Consumption would have to be held down, as the "Perspectives" clearly indicated, and central controls over the economy would have to be tightened. The "Perspectives" also made explicit some far-reaching proposals for further institutional reforms in agriculture that had been discussed in speeches and the press for 2 or 3 years. These proposals not only involved amalgamation of collectives and payment of fixed wages to collective farmers but even entailed the elimination of the private plots of collective farmers -- potentially a highly disruptive measure.

## 2. Subsequent Discussion

It is clear that Novotny and the "Perspectives" were under attack for several months and that in working out the new approach to economic matters several lines of policy that had been tentatively set forth in the "Perspectives" were modified by the time the final Party Directives were adopted at the Twelfth Party Congress early in December. Basically the evolution of economic policy during the period between the "Perspectives" and the Directives was in the direction of even greater caution in economic planning, of increased emphasis on agriculture, of a somewhat less negative approach to consumer desires, and of some toning down of the plans for potentially disruptive changes in agriculture. In no case was there a basic change in approach from that taken in the "Perspectives," but the final policy may well reflect a compromise between more divergent views.

## 3. The Party Congress

The basic reason for the increasing restraint in economic policy was the continued deterioration of the economic situation



during the second half of 1962, especially the decline in agricultural production that may not have been fully anticipated at the time the "Perspectives" was written.

It seems clear that as a result, some early assumptions for the plan for 1963 were revised sharply downward in November or December 1962. When the first definite goals of the plan for 1963 were released, 13) after the Party Congress in December, the percentage increase for industrial production had been reduced to a mere 1 percent -- an unprecedentedly low figure in the entire Soviet Bloc. The original target had been set probably at more than 5 percent. And, as was indicated earlier, increased caution and emphasis on agriculture and exports were reflected in the discussions and directives of the Party Congress.

The whole spirit of the Twelfth Party Congress lacked the optimism usually displayed at such gatherings and suggested that the Party leadership was seriously concerned about how to get its economic house in order. Instead of focusing on the past achievements of socialism and the prospects for a brilliant future, almost every speaker devoted most of his time to criticizing present shortcomings. The leadership placed some of the blame for the country's economic difficulties on "external influences of both a political and economic character" (by implication, mainly the Berlin crisis, which had led to higher defense expenditures than had been planned). 14) Another scapegoat was the enterprise manager who had "misunderstood" the increased responsibility given to him in the decentralization of 1958-60 and acted contrary to the national interest. 15) The leadership itself had to accept some blame for having planned the economy without "adequate technical preparation" or allowance for contingencies. In fact, Novotny's statement that "subjectivism in planning is the greatest evil," 16) made at a Party meeting in March 1963, can be read only as an implicit admission of his own responsibility for the economic deterioration.

#### 4. Characteristics of the New Policy

The 11-point program approved by the Twelfth Party Congress formed the basic part of the published Party Directives. 17) This program, which followed the general approach of the "Perspectives," had the following characteristics:

a. Economic plans were to be carefully worked out and to be conservative enough to allow ample room for contingencies. High-pressure planning, such as had been practiced by the Novotny regime since its inception, would be dropped. In support of the new plans, more attention than before was to be given to new technology, better quality and assortment of products, and closer intra-Bloc economic cooperation. Export commitments were to be met even at the cost of domestic investment.

b. Agriculture was to receive increased attention by the Party. Czechoslovakia had to solve its own agricultural problem and could not expect to fill an ever-growing agricultural deficit from Soviet Bloc sources.

c. The consumer could not expect a significant improvement in his living conditions until the economic situation, and especially the agricultural situation, had considerably improved.

d. The state and Party would have to exercise much tighter control than before over economic activity to insure that established priorities were observed and that economic development would follow the lines established in the plans. Enterprises would lose thereby most of the increased authority that they had acquired during the 1958-60 reforms, at least until such time as an effective system of incentives could be worked out.

#### 5. Specific Features of the New Plans

The evidence of a shift to more conservative planning lay in a great slowing down of the growth of fixed investment during "the next 2 or 3 years" 18); in the considerably reduced rates of growth planned for key industrial branches like steel, electric power, and machine building during 1964-70; and in the very small growth planned for 1963 in industrial production as a whole.

The reduction in rates of growth planned for some leading industrial products and branches is illustrated in the following tabulation (in planned annual average percentage increases) 19):

	<u>1961-65</u>	<u>1963-70</u>
Steel	9.4	6
Electric power	10	6 to 7
Machine building	12	8 to 10

Judging from the above goals and past relationships, total industrial production probably will be planned to grow by about 6 to 7 percent per year, whereas the abandoned plan counted on an annual rate of 9.3 percent. The planned rate of growth that is anticipated probably can be achieved, as it is well below the average rate of 9.2 percent a year estimated for 1956-60 and about the same as the average rate estimated for 1961-62.

The plan for 1963 called for an increase of only 1 percent in industrial production, an apparent decline in growth of labor productivity in industry, and a cut of 6 percent in capital investments. Never before had any Soviet Bloc country actually planned so little an increase as 1 percent in industrial production. The over-all industrial goal for 1963 appears to be well below the goal that was envisaged by the regime when work on the plan began in mid-1962. Hard reality had caught up with the Czech super-planners, with the Czech people paying the price in food shortages and postponed consumer goods.

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- 2) Rude pravo, 9 Jul 60, p. 3.
- 3) Rude pravo, 21 Nov 61, p. 5.
- 4) Statisticky obzor, no 7, 1961, supplement, p. 6.
- 5) Planovane hospodarstvi, no 1, 1961, p. 1-7.  
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UN, ECE. Economic Survey of Europe in 1961, Pt. 1, p. A4.
- 6) Planovane hospodarstvi, no 3, 1962, p. 1-12.  
Rude pravo, 28 Jan 63, p. 1.  
Ibid., 2 Feb 63, p. 1-3.
- 7) Rude pravo, 1 Dec 61, p. 1-2.  
Ibid., 21 Feb 62, p. 1.
- 8) Planovane hospodarstvi, no 3, 1962, p. 10.
- 9) Statisticke zpravy, no 1, 1963, p. 220.
- 10) Rude pravo, 7 Dec 62, p. 2.  
Ibid., 5 Dec 62, p. 4.
- 11) Planovane hospodarstvi, no 2, 1963, p. 14-17.
- 12) Rude pravo, 14 Aug 62.
- 13) Rude pravo, 9 Jan 63, p. 3, 4.
- 14) Ibid., 5 Dec 62, p. 6.
- 15) Ibid., 7 Dec 62, p. 3.  
Ibid., 5 Dec 62, p. 7, 8, 11.
- 16) Ibid., 24 Mar 62, p. 4.
- 17) Rude pravo, 10 Dec 62, p. 1.
- 18) Ibid.
- 19) Ibid., 9 Jul 60, p. 5, 8.  
Ibid., 5 Dec 62, p. 10.  
Ibid., 10 Dec 62, p. 1.  
Planovane hospodarstvi, no 1, 1963, p. 1-10.